



STAFF UPDATE

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Marshall Moran, Finance Manager
Date: May 24, 2012 Board of Directors Meeting
Subject: Update on 2012/2013 Franchise Rate Setting Process

Recommendation

This is an informational report and no action is necessary other than the various requested future responses below.

Analysis

This staff report has been provided monthly to the Board commencing with the November 17, 2011 Board meeting. The purpose of this staff update report is to keep the Board informed on the timing, schedule of events and issues affecting Member Agencies during the 2013 Compensation Application review (performed in 2012) and the Recommended Rate Adjustment process for the upcoming 2013 Rate Year (i.e., establishing rates for January 1-December 31, 2013). The goal is to provide and update pertinent information for Member Agencies to effectively plan for and manage communications regarding the next year's compensation application and rate setting process.

Attached is the draft 2012 (for calendar year 2013 rates) Rate Approval Schedule (**Attachment A**).

New Issues Affecting 2013 Compensation Adjustment include:

- Service Level Adjustments. Per the Member Agency Franchise Agreements with Recology, the company will include in its 2013 Compensation Application the second and **final** service level cost adjustment to account for changes in accounts for residential service, lifts for commercial service, and pulls for roll-off service that have occurred since the first adjustment that was made in 2010 to the company's cost proposal submitted in 2008. It is important to note that the 2008 cost proposal which was used as the basis for establishing 2011 rates relied on customer service level data provided by Allied Waste/Republic Services. Preliminary service level adjustment figures have been prepared by Recology and are under review by staff; further details were provided in the April 26, 2012 staff report for agenda item 4B.
- Recology Annual Revenue Reconciliation for 2011. Recology submitted a Revenue Reconciliation Application to the SBWMA on March 30, 2012 which compares the approved compensation owed to Recology for 2011 with the actual net compensation retained by Recology after paying for Pass-Through costs for disposal at Shoreway and Agency fees (e.g., Franchise Fees) paid to each Member Agency. Each Agency will have a surplus or shortfall which will be added to or subtracted from the 2013 Revenue Requirement; this surplus or shortfall can not be carried forward to 2014 rates. This application is under

review by HF&H as part of the Financial Systems Audit project and the results will be presented at the June Board meeting.

- Service to Agency Facilities for 2012. The allocation of the cost to provide service to each Member Agency's facilities will be adjusted retroactively for 2012 based on final statistics from Recology. The initial allocation for 2012 was based on projections in lieu of the actual operating statistics. In September 2011, SBWMA staff recommended and the Board approved using a temporary allocation until the company returned with actual statistics in 2012 as directed by the Board. Recology included a revised allocation for 2012 based on actual operating statistics compiled in January and February 2012. This revised allocation was included with the company's Revenue Reconciliation Report submitted on March 30, 2012.
- Performance Incentive/Disincentive Payments. The Franchise Agreement(s) with Recology prescribe that payments related to performance incentives/disincentives will be calculated in the company's Annual Report submitted in mid-February and then included in their Compensation Application due on July 1 each year (with the exception of Contamination related disincentive payments which are calculated quarterly and paid directly to SBWMA). Therefore, both incentive payments due to Recology and disincentive payments (with the exception of Contamination related disincentives) due to Member Agencies shall be included in the Annual Compensation Application. Recology has provided preliminary figures for such payments which are still under review by staff.

Schedule of Rate Review Activities

March 2012

- SBWMA sent a letter to the Board requesting feedback on how to improve the annual rate setting process. Staff received comments from Foster City and Hillsborough only.
- Recology submitted the first Revenue Reconciliation Application on March 30, 2012 (and annually thereafter).
- SBWMA awarded a contract to audit the financial data provided by SBR and Recology for 2011 to ensure this data is accurate. This contract was awarded to HFH on March 22nd and work is underway.

April 2012

- Staff presentation at April 26th Board Meeting to discuss rate setting process.

May 2012

- SBWMA to issue a report on projected 2012 revenue (based on four months of actual) compared to the base revenue projection in the 2012 rate projections.
- Agencies with a projected revenue shortfall are encouraged to review their residential rate structure for deficiencies (i.e., rates don't cover costs) – especially in the small cart (20 and 32-gallon) rates.
- May 24 - Elected official briefing on rate setting process, rate issues and results of customer satisfaction survey.

May/June 2012

- SBWMA to send out letter to Board requesting feedback from all agencies on issues affecting 2012 rate adjustments (e.g., changes to Agency fees, revenue and tonnage projections). Response requested by July 1.

- SBWMA to issue report summary on the Recology 2011 Revenue Reconciliation Application.

July 2012

- July 1 - Compensation Applications due from Recology and SBR for 2013 compensation adjustment.
- July 1 - Response from Member Agencies to SBWMA on issues affecting 2013 rate adjustments (e.g., changes in agency fees, revenue and tonnage projections).
- July 1-15 – SBWMA to provide Recology Compensation Application to all Member Agencies and commence a process to include Member Agency feedback. **The Member Agency feedback will be needed by August 1.**
- July 19 – BOD Staff report on estimated residential revenue changes due to cart migration by Member Agency with an update on cart migration since July 2011; to be discussed at July 26th Board meeting.

August 2012

- August 1 - Member Agency feedback due on 2013 Recology Compensation Application.
- August 8 - Feedback from agencies on what to include in 2013 collection rate adjustment for current and future cart migration (agencies may decline to include an estimate for future cart migration).

September 2012

- September 1 - Preliminary report issued by SBWMA on Recology's Rate Application for 2013 compensation adjustment.
- September 1 - Preliminary report issued by SBWMA on SBR's Rate Application for 2013 compensation adjustment.
- September 11 - Comments due back from Member Agencies on preliminary Rate Reports for Recology and SBR.
- September 20 - Final Rate Report issued for Recology's Rate Application for 2013 compensation adjustment (for consideration at September 27, 2012 Board meeting).
- September 20 - Final Rate Report issued for SBR's Rate Application for 2013 compensation adjustment (for consideration at September 27, 2012 Board meeting).
- September 20 - Consolidated Rate Report issued with recommended total collection rate adjustments for 2013 (including Recology compensation, disposal expense at Shoreway, agency fees, and agency directed cart migration impact for 2013).
- September 27 – Board consideration and approval of SBR 2013 Compensation Application.
- September 27 – Board consideration and approval of Recology 2013 Compensation Application.
- September 27 – Board consideration and approval of SBWMA Consolidated Rate Report.

September 27 – December 31, 2012

- Member Agencies notice and approve final 2013 solid waste rates

November 2012

- Report to Board on Recommended January 1, 2013 Shoreway tip fee adjustment including Bond proforma update for 2013 SBWMA financial projection with assumed tip fee and reserve balances.

Attachment:

Attachment A – Draft 2013 Rate Approval Schedule



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2013 Rate Approval Schedule

Member Agency Rate Setting Process

The 2013 Recology Compensation Application is due to the SBWMA on July 1, 2012 per the deadline prescribed in the Member Agency Franchise Agreement(s). On September 1, 2012 (also per the Franchise Agreements), the SBWMA will issue its Report on Recology's Compensation Application. The Member Agencies then have 10 days to provide comments on the SBWMA's Report. The comments received will be incorporated in the 2013 SBWMA Consolidated Rate Report that will become binding upon the Board's approval at the September Board meeting. The overarching implications of this are that the rate increases put forth in the SBWMA Rate Report will be the minimum rate increases each Member Agency is obligated to adopt or face interest penalties for amounts owed to Recology.

September 27, 2012 BOD Meeting

- Recology and SBR Compensation Applications Approved
- Consolidated Rate Report Approved

Member Agency Residential Billing Schedule

Group A: October-November-December (Billed September 30, 2012; December 31, 2012)

- Menlo Park
- Redwood City (Not applicable to Residential, Redwood City does its own billing.)
- San Mateo
- West Bay Sanitary District

Group B: November-December-January (Billed October 31, 2012; January 31, 2013)

- Atherton
- Burlingame
- San Carlos

Group C: December-January-February (Billed November 30, 2012; February 28, 2013)

- East Palo Alto (Not applicable to Residential.)

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- Foster City
- Hillsborough
- County of San Mateo

Prop 218 Public Notice Implications

Prop 218 requires an agency to provide 45 days public notice directly to all account holders prior to authorizing a rate increase. If more than 50% of all account holders file a protest letter within the 45 day public comment period, the agency cannot adopt the proposed rate increase.

Bill Insert Considerations

Recology typically requires that a bill insert is prepared and ready for insertion with the bills a minimum of two weeks prior to the scheduled bill issuance date. However, the company may reduce this deadline to 5 business days for special circumstances, such as a Prop 218 Notice. The company has detailed guidelines regarding the specifications for bill inserts and will share these upon request. Agencies issuing a Prop 218 Notice via Recology’s bills will need to **pay directly for the costs** associated with production and printing but will save on mailing expenses since Recology can include the insert with its bills at no additional cost.

Direct Mail Considerations

Member Agencies sending the Prop 218 Notice via direct mail will need to **pay directly for the costs** associated with production, printing and mailing. Agencies sending a direct mail piece typically include these costs in their rates. Sending the Prop 218 Notice via direct mail provides the Agency with total control and flexibility regarding production and mailing of the notice.

Bill Insert vs. Direct Mail:

Group A

These agencies may be able to prepare and print a bill insert in time for inclusion with the September 30, 2012 mailing. Therefore these agencies will need to produce a direct mail piece in order to close the Prop 218 public hearing process and adopt rates prior to January 1, 2013.

Proposed Schedule:

September 27, 2012..... SBWMA BOD Approves Recology and SBR Compensation.
 October 1-15 Governing body or agency staff approves issuance of the Prop 218 notice.
 October 16-31 Prop 218 Notice printed and issued via direct mail

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- November 1-15 Governing body closes the Prop 218 public notice period and adopts 2012 rates effective January 1, 2013.
- December 31..... First Recology bill issued with new 2013 rates.

Group B

These agencies will likely be able to prepare and print a bill insert in time for inclusion with the October 31, 2012 mailing. However, since the Prop 218 process will not close for 45 days after issuance of the Prop 218 rate increase notice, these agencies will have to bring the results of the Prop 218 notice before their governing body between December 16 and 31, 2012. Otherwise, these agencies will need to produce a direct mail piece in order to close the Prop 218 public hearing process prior to January 1, 2013.

Proposed Schedule:

- September 27, 2012..... SBWMA BOD Approves Recology and SBR Compensation
- October 1 – October 15..... Governing body or agency staff approves issuance of the Prop 218 notice.
- October 31 Prop 218 Notice included with Recology bills
- December 15-31 Governing body closes the Prop 218 public notice period and adopts 2013 rates.
- January 31, 2013 First Recology bill issued with new 2013 rates including a retroactive rate adjustment for January.

Group C

While these agencies will have ample time to prepare and print a bill insert in time for inclusion with the November 30, 2012 mailing, this is moot since the 45 day Prop 218 notification period will not close until after January 1, 2013 (i.e., on January 14, 2013). Therefore these agencies will be required to produce a direct mail piece in order to close the Prop 218 public hearing process prior to January 1, 2013.

Proposed Schedule:

- September 27, 2012..... SBWMA BOD Approves Recology and SBR Compensation
- October 1-15 Governing body or agency staff approves issuance of the Prop 218 notice.
- October 16-31 Prop 218 Notice printed and issued via direct mail
- December 1-15 Governing body closes the Prop 218 public notice period and adopts 2013 rates.
- February 28, 2013..... First Recology bill issued with new 2013 rates including a retroactive rate adjustment for January and February.

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